

Memorandum

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Be energy efficient!*

To: DAN FREEMAN
Deputy District Director
District 7 – Maintenance and Operations

Date: April 15, 2009

File: P3030-643

Original Signed By

From: GERALD A. LONG
Deputy Director
Audits and Investigations

Subject: District 7 Maintenance Review

Attached for your information is Audits and Investigations' (A&I) final report for the District 7 Maintenance Review. This review was performed as a management service to you for your consideration in the oversight role of the Maintenance and Operations Unit.

We thank you and your staff for their assistance during our review. A&I's review is an independent internal review intended to provide you with feedback for your management's consideration.

If you have any questions or need additional information, please call Laurine Bohamera, Chief, Internal Audits, at (916) 323-7107, or me at (916) 323-7122.

Attachment

c: Doug Failing, District Director
Rene Halverson, Acting Deputy District Director, Administration
Laurine Bohamera, Chief, Internal Audits, Audits and Investigations
Steve Takigawa, Chief, Division of Maintenance
Wallie Jordan, Maintenance Manager, North Region
Steve Wagner, Maintenance Manager, North Region
Christine Anderson, Maintenance Manager, South Region
Mike Young, Maintenance Manager, South Region
Diane Burroughs, Regional Administrative Officer, North Region
Sharon Haywood, Regional Administrative Officer, South Region

P3030-643
District 7 Maintenance Review
April 2009

Gerald A. Long
Deputy Director
Audits and Investigations
California Department of Transportation

DISTRICT 7 - MAINTENANCE REVIEW

SUMMARY

Audits and Investigations (A&I) has completed a maintenance review of District 7 (District). The purpose of the review was to assess whether accounting and administrative procedures were being followed, that fiscal data was being entered properly into the accounting system, and that proper measures were in effect to safeguard the California Department of Transportation's (Caltrans) assets. The review was performed as a management service to you for your consideration in your oversight role of the Maintenance and Operations Unit.

Our review of the accounting records and control procedures was based on the District's compliance with Caltrans' Accounting Manual, State Administrative Manual (SAM), and departmental policies and procedures. The scope of our review covered personnel time and payroll records, overtime and warrant distribution procedures, cash, purchases, damage reports, bulk fuel, chemicals, and other records and tests as deemed necessary.

Our review disclosed that the accounting records and control procedures followed by the District Maintenance and Operations Unit were generally in compliance with Caltrans' Accounting Manual, SAM, and departmental policies and procedures, except as follows:

- Weaknesses in Personnel/Payroll Processing
- Weaknesses Over Purchase Authority Purchase Orders and Receiving Procedures
- CAL-Card Deficiencies
- Noncompliance With Home Storage Permit Guidelines
- High Bulk Fuel Variances
- Inadequate Control Over Chemicals
- Untimely Validation of Accident Damage Reports
- Inadequate Office Safe Controls

OBJECTIVES

The objectives of the maintenance review were to assess whether accounting and administrative procedures were being followed, fiscal data was being entered properly into the accounting system, and proper measures were in effect to safeguard Caltrans' assets.

SCOPE AND METHODOLOGY

The scope of our review included personnel time and payroll records, overtime and warrant distribution procedures, cash, purchases, damage reports, bulk fuel, chemicals and other records and tests as deemed necessary. Our review did not include a review of cookhouses and bunkhouses, as none exist in the District. Our methodology consisted of interviewing personnel, reviewing records, and performing other analytical procedures and tests as we considered necessary.

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The period of the review focused on District transactions and operations from January 1, 2008, through June 30, 2008.

RESULTS

The maintenance review disclosed that the District Maintenance and Operations Unit followed accounting and administrative procedures, entered fiscal data properly into the accounting system, and took proper measures to safeguard Caltrans' assets. However, we identified the following deficiencies where internal controls can be improved:

- Weaknesses in Personnel/Payroll Processing
- Weaknesses Over Purchase Authority Purchase Orders and Receiving Procedures
- CAL-Card Deficiencies
- Noncompliance With Home Storage Permit Guidelines
- High Bulk Fuel Variances
- Inadequate Control Over Chemicals
- Untimely Validation of Accident Damage Reports
- Inadequate Office Safe Controls

For detailed information, please see the Attachment.

We hope this review proves useful in your oversight role of the District's Maintenance and Operations Unit. If you have any questions, please contact Laurine Bohamera, Chief, Internal Audits, at (916) 323-7107.

Original Signed By

GERALD A. LONG
Deputy Director
Audits and Investigations

September 18, 2008
(Last Day of Field Work)

Attachment

Audit Team:

Laurine Bohamera, Chief, Internal Audits
Zilan Chen, Audit Supervisor
Mohammad Eslamian, Auditor
Yeong Vardanega, Auditor

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Finding 1 – Weaknesses in Personnel/Payroll Processing

Background:

Maintenance Field Supervisors enter labor hours, equipment usage, and materials used for themselves and their crews into the Integrated Maintenance Management System (IMMS) daily. After midnight, IMMS uploads information into the Transportation Operations and Project Support System (TOPSS) automatically. The next morning, region office staff runs various reports from TOPSS to ensure that hours reported were correctly transferred during the interface. Monthly time sheets (M-33s) are generated from TOPSS, which are reviewed by management for accuracy, signed by employees, and approved by their supervisors.

Issues:

A. Personnel/Payroll Record Deficiencies

We reviewed 22 M-33s generated from TOPSS and the corresponding IMMS reports to determine if the hours shown on M-33s are supported by IMMS for selected field and office employees. We also reviewed applicable Absence and Additional Time Worked Reports (STD 634s) and other reports and files relating to personnel and payroll for these same employees. We found that eight of the nine (89 percent) payroll records from North Region (North) and 12 of the 13 (92 percent) payroll records from South Region (South) contained one or more of the following deficiencies:

- **M-33 Certification** – M-33s were not signed by employees or their supervisors for the last two years (South). State Administrative Manual (SAM), section 8539, requires that the employee's time sheet is certified by the employee and the employee's supervisor. Without time sheet certification by employees or approval by the employee's supervisor, there is no assurance of the accuracy of the hours worked.
- **Daily Work Hours** - Daily work hours did not reflect a lunch hour (North and South) and the clock hours were blank or do not consistently support the daily work hours with accurate start and end times (South). Weekly Notification of IMMS Manual Changes – 4/21/03 # 3 requires the use of two entries to show a lunch hour.
- **Leave Approval** - STD 634s have not always been forwarded by supervisors to the Region Office and employees, who took vacations, did not consistently have STD 634 approval for their time off (South). According to the memorandum by the Chief of Personnel Management Division dated March 24, 1987, Maintenance field employees whose time is recorded on the Foreman's Daily must still complete a

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STD 634. According to STD 634 instructions, the supervisor is responsible for promptly reviewing and signing the employee's absence report and forwarding it to the Personnel Office. Since the Regional Administrative Officer (RAO) performs personnel functions for the region, the STD 634 should be forwarded to the RAO's office to maintain. Without STD 634 approval by the supervisor, leave has not been authorized.

- **Excess Leave Balances** - Leave balances exceeded the limit of 640 hours without a plan of reduction of leave balance in place (North). According to Caltrans Personnel Information Bulletin (PIB) 08-17, the maximum vacation or annual leave accrual limits/cap for nonrepresented and represented employees is 640 hours. An employee, whose leave balance is above (or has the potential to be above) the established limit/cap on December 31 of any calendar year, shall submit a plan to his/her supervisor to reduce the excessive balance by the end of that year or the subsequent year. Excess leave balances create an unbudgeted liability to Caltrans.
- **Overtime Approval** - No prior or retroactive approval for planned or emergency overtime worked (North and South). According to the SAM, section 8540, an employee must have prior written approval to receive overtime compensation. However, in the case of emergency call-outs, management can retroactively approve this compensation. Without required or retroactive overtime approval, unnecessary or unauthorized overtime can be worked and paid.
- **Overtime Overpayment** - Overtime hours recorded on the M-33s did not always agree with the monthly time comparison report generated from IMMS, which caused overpayments to employees (South). This was due to a correction made in IMMS that was not reflected on the M-33 and the reconciliation of overtime hours recorded between TOPSS and IMMS was not performed.

B. Separation of Duties

We noted that in both regions, the same person who is in charge of timekeeping functions also distributes salary warrants. SAM 8580.1 requires payroll distribution function and payroll timekeeping function to be separated. Improper separation of duties can lead to errors, irregularities, and fraud.

C. Separation Checklists

We found separation checklists were not required for seven transferred employees in the North Region. PIB 07-21 requires an employee separation checklist when employees resign, retire, transfer, promote, or go on a temporary leave of absence for more than 30 days. Lack of completion of the separation checklist could result in a loss of State assets.

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Recommendation

We recommend that District Maintenance and Operations management require the following:

- M-33s should be printed out by the Region Office and forwarded to the field office for certification by the employee and the employee's supervisor. Once completed, the M-33 should be forwarded back to the Region Office for filing.
- M-33s should be recorded with the correct clock hours by supervisors.
- STD 634s should be prepared, approved, and forwarded to the Region Office for all leave.
- Leave balances should be reviewed annually to identify employees who are in excess or have the potential to be in excess of the 640 hour cap. Those identified employees should be required to complete a plan to reduce leave balances and obtain approval from the supervisor.
- Prior written approval should be required for planned overtime and retroactive written approval should be required for unplanned emergency overtime.
- TOPSS and IMMS overtime hours should be reviewed and reconciled.
- Ensure payroll timekeeping and warrant distribution functions be performed by different employees.
- Employee separation checklists should be completed for all separations, including transfers.

Finding 2 -- Weaknesses Over Purchase Authority Purchase Orders and Receiving Procedures

Background:

Purchase Authority Purchase Orders (PAPOs) are used for purchases greater than the CAL-Card limit of \$5,000. The delegated limit for a purchase using a PAPO is \$100,000. Requestors are usually the supervisors or superintendents who prepare and sign the Purchase Request (PR), obtain bids, and present the request and the quotes to the region manager for approval.

Issues:

We reviewed 18 PAPO packages including corresponding receiving records (nine in each region) and found 10 (56 percent) (five in each region) contained one or more of the following deficiencies:

- Did not contain the required written three bids (North and South).
- PRs were not included in the PAPO packages (South).
- Receiving records took more than 14 days to process at the Region Office resulting in late interest penalties (South).
- Invoice approvals for verification of receipt or payment were missing (North).

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- Receiving records were not approved for payment but payments were processed (North).
- Receiving records were prepared and approved by office technicians (North).

The Caltrans Acquisition Manual, section 8.1, states that Caltrans is responsible for maintaining evidence in the procurement file that supports all activities related to the procurement. Purchase requests and copies of quotes for acquisitions of \$5,000 and above are among the documents that should be included in the procurement file.

The State Prompt Payment Act (California Government Code, section 927.4), states that to avoid late payment penalties, the maximum time from State agency receipt of an undisputed invoice to issuance of a warrant for payment is 45 calendar days, including not more than 30 calendar days from the State agency to submit a correct claim schedule to the Controller, and not more than 15 calendar days for the Controller to issue the warrant. Caltrans allows 14 days in the Region Office to process the payment. Should the processing be longer than 14 days in the Region Office, the region is charged any late payment penalties.

The Caltrans Acquisition Manual, section 7.2, requires the receiving documents be signed and completed in acknowledgment of delivery of the items described on the invoice or packing slip, PAPO, and bill of lading (if applicable). These documents must be given to the requestor to package together and to forward to the Division of Accounting (DofA) for processing.

The Caltrans Regional Administrative Officer (RAO) Manual, section 1.22, requires a maintenance manager or other authorized person to approve the receiving records. It also requires the preparer not being an approving officer.

Noncompliance with the required Caltrans PAPO policies and procedures puts Caltrans at greater risk that unauthorized or unnecessary purchases would go undetected. In addition, without following the proper procurement process, Caltrans may not receive a competitive market price for necessary purchases. Furthermore, noncompliance with the State Prompt Payment Act results in late payment penalties to Caltrans.

Recommendation

We recommend that District Maintenance and Operations management implement the following regarding the PAPO process to ensure:

- PRs and written bid proposals are maintained in the procurement file.
- Payment does not take more than 14 days in the Region Office.
- Invoices receive proper review and approval.
- Receiving records are signed by a manager or an approving officer other than the preparer.

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Finding 3 – CAL-Card Deficiencies

Background:

CAL-Cards are used widely throughout the District as an alternate means to procure goods and services for purchases under \$5,000, with delegation of authority passed from DPAC to the approving officials (AOs) and cardholders (CHs). CHs are assigned to an AO who reviews and approves the CH's purchases. The CH is responsible for submitting a completed Statement of Account (SOA) package to DPAC. The security and correct use of the CAL-Card are the responsibilities of the CH and the AO.

Issue:

We reviewed and tested a total of 36 CAL-Card purchases. We found all of the 23 (100 percent) purchases in South Region and 11 of 13 (85 percent) purchases in the North Region contain one or more of the following deficiencies:

- PRs lack prior approval.
- PRs contain an incorrect Expenditure Authorization (EA) code or object code.
- Use of CAL-Card by non CAL-Card holders.
- Possible split orders to circumvent competitive bidding and/or advertising process.

The CAL-Card Handbook (Handbook), section 3.1, states that approval is necessary before making any purchase and the approval must be documented in the procurement file.

Deputy Directive (DD-41), Departmental Charging Practices, requires that costs be charged to proper codes.

The Handbook, section 1.9, Authorized Use, requires that the CH/employee, whose name is on the CAL-Card, be the only authorized user of the CAL-Card. Any other use constitutes fraud, will result in cancellation of the account, and could lead to disciplinary action.

The Handbook, section 1.7, Spending Limitations, requires purchase limit of \$4,999.99 for any single purchase transaction. Furthermore, section 1.8, Splitting of Orders, states Order shall not be split to circumvent competitive bidding and/or advertising. Examples of splitting include, but are not limited to, the following practices: using two types of purchases which in total will circumvent the single purchase limit.

The Caltrans Acquisition Manual, section 5.2.1, Base Goods Purchase Authority, states that Acquisitions up to a value of \$4,999.99 require only one offer if it is established and documented that the price is fair and reasonable. Acquisitions between \$5,000 and \$50,000 require three written bids.

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Unauthorized CAL-Card purchases can result in unnecessary purchases, inappropriate activities, and a loss of State funds. Inaccurate EA and agency object coding could lead to incorrect allocation of project expenditures.

Recommendation

We recommend that District Maintenance and Operations management comply with the Caltrans Acquisition Manual and Handbook and require the following:

- All CAL-Card purchases have prior approval.
- All purchase requests contain accurate EA and Agency Object Codes.
- CAL-Card purchases are made by the authorized CH only.
- Orders are not split to circumvent the maximum purchase amounts.

Finding 4 – Noncompliance with Home Storage Permit Guidelines

Background:

A Home Storage Permit (HSP) must be obtained when a State-owned vehicle is stored at an employee's home or in the immediate vicinity of the home for more than 72 nights over a 12-month period, or more than 36 nights over a 3-month period. The Division of Equipment coordinates the statewide home storage permit program and provides forms and instructions upon request. Maintenance employees respond to highway emergencies where timing is critical. As a result, some employees take their assigned vehicle home in order to respond to after-hour emergencies.

Internal Revenue Service regulations generally consider that value of personal use of State-owned vehicles as taxable income, which must be reported to the State Controller's Office. As such, the Home Storage Permits Guidelines stated that daily home to work travel via State-owned or leased vehicles by HSP holders, when not on per diem, shall be reported on a Personal Use of State Vehicle Form (PM-0041).

Issue:

We reviewed 20 HSPs (10 from each region) and found the following:

- Seven out of 20 (35 percent) HSP holders did not maintain any monthly Log of Required Trips.
- Twelve out of 20 (60 percent) HSP holders did not file a PM-0041.

According to the Caltrans Regional Administrative Officer Manual, section 8.05, individuals who have HSPs must complete the Log of Required Trips each month.

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DD-28-R2, Vehicle Home Storage Permits, issued July 2006, requires employees and supervisors to follow the Home Storage Permits Guidelines issued by the Division of Equipment that requires the filing of form PM-0041 to the Division of Accounting.

Nonenforcement of Home Storage Permit Guideline requirements puts Caltrans at risk for losing control of its vehicle fleet. In addition, not following the HSP guidelines may be considered a misuse of the State vehicle, for which Caltrans has received many public complaints.

Recommendation:

We recommend that District Maintenance and Operations management comply with the Caltrans Regional Administrative Officer Manual and DD-28-R2 by the following:

- Ensure all HSP holders submit their monthly Log of Emergency Trips.
- Ensure HSP holders submit a PM-0041.

Finding 5 – High Bulk Fuel Variances

Background:

The District Maintenance and Operations Unit has bulk fuel sites throughout the District in the North, South, East, and West Regions. The bulk fuel process is automated in most of the locations. Fuel disbursement is monitored by Headquarters, Division of Maintenance, with use of voyager cards that are assigned to the vehicles. In some locations, the bulk fuel process is tracked manually by either dipstick measurement or by reading a fuel gauge situated on the fuel tank when the tank is sealed. The fuel gauge is connected to a measuring floater inside the tank which reflects the fuel level. The reading on the gauge is then converted to gallons using a chart provided by the fuel tank manufacturer. A Monthly Recapitulation of Bulk Fuel (Form FA-0095) is prepared to compare fuel amounts on record to the actual measurement.

Issue:

In the North Region office maintenance station, we compared the actual fuel level in the tanks to the recorded amounts and found an overage of 14 percent in gasoline and a shortage of 11 percent in diesel fuel inventories. In addition, we noted that three of eight Forms FA-0095 tested did not have a superintendent signature.

Caltrans Policies and Procedures (PP 83-2), Covering Bulk Fuel, requires that overages/shortages exceeding the two percent allowable variance be investigated and corrective action taken. In addition, the PP 83-2 states that the Regional Maintenance Superintendent shall collect, approve, and transmit all bulk fuel reports. Moreover, SAM 20050 requires that State entities establish and maintain internal controls to ensure the proper safeguarding of assets.

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Uninvestigated variances could indicate that assets are not properly safeguarded and increases the risk of a loss of State funds. Fuel cost overruns have been a serious budget issue for Caltrans, so it is incumbent upon all programs and districts to monitor fuel prudently.

Recommendation

We recommend that District Maintenance and Operations management investigate the shortage immediately, investigate and resolve monthly variances in excess of two percent for all fuel tanks, and attach an explanation to the Monthly Recapitulation of Bulk Fuel. We also recommend that the region maintenance superintendent collect, approve and transmit all Forms FA-0095.

Finding 6 – Inadequate Control Over Chemicals

Background:

The North and the South Region office maintenance stations store chemicals that are supplied to highway landscape workers in the District. Usage of chemicals is entered into IMMS by supervisors or the designated backup custodians of the chemicals.

Issue:

We took inventories of all the chemicals in both the North and the South Region maintenance station chemical storage rooms and compared them to the IMMS stock inventory reports and found that in the South Region, the physical inventory count for five of nine (56 percent) chemicals in the room were significantly (at least 25 percent) different from the balances shown on the IMMS report. In addition, we found an improper separation of duties. Specifically, the person making purchase requests for the chemicals is also the custodian of the chemicals and responsible for taking inventory.

SAM, section 20050, requires State entities to establish and maintain internal controls to ensure proper safeguarding of assets and separation of duties.

The Caltrans Maintenance Manual, Volume II, Chapter 3 – Managing Materials and Supplies, section 3.1, states that all maintenance materials purchased by Caltrans for future use shall be safely and securely stored.

Inadequate internal controls over chemical supplies could result in the loss, theft, and/or misappropriation of State resources.

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Recommendation

We recommend that District Maintenance and Operations management:

- Ensure purchasing, custodian, and inventory taking of chemical functions be performed by different employees.
- Adjust inventory records to reflect the amounts counted and document the reason for any adjustment.
- Document inventory procedures and inform the responsible individuals of their required duties.

Finding 7 – Untimely Validation of Accident Damage Reports

Background:

Damage to the State Highway System is recorded in IMMS by supervisors or superintendents. When the responsible party of the damage is known, a Service Request, Accident Log, and Work Order(s) are created in IMMS. Once an accident number is assigned, the cost of repair can be monitored. After all work orders are completed, the regional office validates the damage report and submits it to the DoFA, Office of Accounts Receivable for billing the responsible party. Validation is the process in IMMS that electronically transmits accident logs to DoFA for billing.

Issue:

We reviewed 14 Damage Claim packages and found that 13 of 14 (93 percent) were not validated and sent to accounting within 90 days. Their validations took between 115 to 221 days.

The Maintenance Manual, section 1.12.3, July 2006 revision, states that every effort should be made to complete the Damage Reporting process within 90 days. In addition, according to the Damage Reports Project Status Memorandum, August 29, 1996, the time limit is set at 90 days from the accident date to billing.

The validation delay is caused by a variety of reasons, including waiting for parts needed to complete the repair, budget constraints in purchasing parts needed for the repair, waiting for documents from external parties, and a change of supervisors.

Delinquency in processing accidents for validation and billing could result in diminished cost recovery for Caltrans.

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Recommendation:

We recommend that District Maintenance and Operations management ensure that Damage Claim Accident logs are validated within 90 days of the accident date in order to maximize Caltrans' recovery rate of incurred damage costs.

Finding 8 – Inadequate Office Safe Controls

Background:

Each regional maintenance office has a safe where checks and other valuables may be stored.

Issue:

In the South Region, the safe is kept unlocked and open at all times inside a supply room. Per the RAO, the safe is kept open because no one knows the combination.

In the North Region, the safe combination was not changed after an employee separation.

SAM, section 8024, Safes and Vaults, requires that a safe has a combination, which should be known to as few persons as possible. SAM also states that a record will be kept showing the date the combination was last changed and names of persons knowing the combination. The combination will be changed when it becomes known to an excessive number of employees, or if any employee having the knowledge of the combination leaves or no longer requires the combination in the performance of his or her duties.

Leaving the safe unlocked or not changing the safe combination after employee separation may jeopardize the safety of State-owned assets such as employee warrants kept in the safe.

Recommendation:

We recommend that District Maintenance and Operations management establish procedures to ensure compliance with requirements in SAM, section 8024, Safes and Vaults.